

Green Banking: India's Vision for Sustainable Finance in G20

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ABSTRACT

In recent years global economies have realised that climate change has the worst impacts at the global level. Every country is experiencing the impact of climate change. Thus, a vision for long run could be the only way to sustain and develop holistically. The G20 summit in 2021 incorporated the concept of "Sustainable Finance" or the ways to make finance and banking sector more focused towards the sustainable business processes and models. The theme of upcoming G20 summit 2023 in India "Vasudhaiv Kutumbakam" or "One earth, One family, One future" clearly shows how much we need to focus on sustainable ways for development. 'Green Banking' is one such way through which sustainable finance could be achieved. Green banking is the way of incorporating sustainable and green methods in banking practices to reduce carbon footprints of banks so that environment could be preserved and sustainable development could be ensured. Banks are adopting sustainable ways of financing and through other green methods are ensuring that there is no harm to the environment. This paper throws light on India's vision for sustainable finance in G20 and green banking would help in achieving it. Green banking, through innovative and sustainable business models and financially supporting sustainable businesses, would be a key facilitator of sustainable development.

KEYWORDS: Green Banking, Sustainable Finance, G20 Summit, Sustainable Development, Climate Change

INTRODUCTION

The term triple planetary crisis is not just a term but a threat of this 21st century which has endangered billions of lives and livelihoods across every continent and is swallowing slowly the systems upon which we all depend. Triple planetary crisis addresses three major interlinked issues: climate change, pollution and biodiversity loss. The development process and the activities carried out to develop has been the cause for this crisis. It's the time to save this planet through every activity and India has envisioned sustainability through G20 summit to protect our planet earth and develop in long run. Sustainable finance was incorporated on G20 summit 2021 by recognising the importance of finance sector to meet the sustainability goals. Green banking is a way to achieve this goal of sustainable finance and a step to move towards India's vision of sustainable future in G20 summit 2023.

Literature Review

Catherin. T. C. & C. L. Jeba Melvin (2022) concluded that people are running behind money for the advancement of economy and improvement of their living standard. However, they failed to realize that, economy and environment are two different sides of the same coin, any sort of harm made by people in any one of the sides for their self-centeredness may make the coin invaluable. When comparing the banking sector globally, Indian banking sector is lagging in initiatives and usage of Green Banking. The study also found that the customers of public and private sector banks have average awareness about Green Banking products. Awareness about green banking products and customers' habits of using eco-friendly practices are important for reaching the goal of sustainability. It's the responsibility of banks to create awareness about Green Banking products and make the customers start using Green Banking Products to protect the

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environment. A small step taken today by each customer will make a huge change tomorrow.

Sngiseti, Venkata (2022) highlighted the recent developments in Indian banks' that lead to sustainability by using green banking practices and the challenges that comes in the way of implementation of those practices.

Hanif M., Joshi M. & Soni M. (2022) concluded that, though there are many challenges in achieving the goal of sustainable banking in India, yet there is a scope to reach the goal. These environment-friendly practices will not only help the environment but will also help the banks to sustain their growth for a longer time period. People these days are more aware and concerned about the environment surrounding the so protecting the environment and reducing the carbon footprints is the need of the hour for the banking industry despite the challenges or hurdles in its way.

G. Nandini Prabhu & P. S. Aithal (2021) highlighted the current state, research gaps, and research goals connected to viable strategies of utilising CSR money on green banking practises to satisfy the dual aims of social responsibility and strengthening brand value to maintain existing and attract new consumers. From the mainstream market to the present day, the notion of green banking has grown in popularity in the financial sector. Policymakers have recognised the significance of green banking policies in assisting developing and poor countries. Green practises can be changed by the RBI and other financial regulators. However, countries' monetary systems have strengthened over time, opening the path for the long-term viability of green principles. Furthermore, from a strategic standpoint, consumer behaviour towards green concepts has permeated a strong shift towards maximising green financial solutions. In addition, banks ensure technology that significantly reduce the carbon footprint, so it has become critical for both the commercial and governmental sectors to maximise green practises. Banks may develop consumers and satisfy their customers by investing increasingly in outbound and inbound CSR initiatives.

Sharma M. & Choubey A. (2021) provided a conceptual model of Green banking initiatives and investigated the impact of three Green banking initiatives, namely green product creation, green corporate social responsibility, and green internal processes, on two potential outcomes, namely green brand image and green trust and found that environmental concerns are growing in all forms of businesses, yet, banking occupies a unique niche due to its ability to support the country's economic growth

and development. The study included semi-structured in-depth interviews with 36 middle- to senior-level managers from twelve public and private Indian banks. By increasing the availability of finance and serving the demands of a "green economy", the banking industry may play a critical role in improving the banking system. According to the study's findings, "63% of total respondents believe their bank develops several green banking products and services, 53% believe their bank incorporates green internal processes into their daily activities, and 78% believe their bank engages in several green corporate social responsibility initiatives". The study also found that more than 60% of respondents agreed that green banking activities plays a beneficial role in rebuilding customer trust through improved green brand image.

Islam, Roy, Miah, & Das (2020) concluded that green banking is becoming a global standard for embracing socially and environmentally responsible corporate practises. This banking is ecologically friendly because it prevents environmental degradation and makes the earth more habitable. Green banking has become a buzzword in the field of sustainable banking over the previous few decades. In actuality, green banking is recognised as sustainable banking, which contributes to environmental protection while ensuring long-term economic growth.

Dr. G. Jayabal & M. Soundarya (2016) claimed that green banking is becoming increasingly popular around the world. Green banks could not be a profitable commercial venture. However, it has the potential to earn market share and profit in the future. For effective green banking, the RBI and the Indian government must take the lead and develop green policy guidelines and financial incentives. Green banking can help reduce pollution and safeguard the environment while also promoting long-term economic growth. The banking industry's survival is inversely proportionate to the degree of global warming. As a result, for sustainable banking, Indian banks should immediately adopt green banking as a business model.

Dipika (2015) said that "the notion of 'Green Banking' will benefit banks, industries, and the economy all at the same time. Not only will green banking assure the greening of sectors, but it will also help banks improve their asset quality in the future". Adopting Green Banking practices presents numerous potential and challenges for Indian banks. Green banking, if implemented properly, will serve as an effective ex-ante deterrent to polluting firms that avoid existing institutional regulatory measures. As a result, Indian banks should implement green banking

as a business model as soon as possible in order to ensure long-term viability.

Objectives of the study

1. To explore the concept of green banking from the vision of sustainable future.
2. To discuss the role of sustainable finance in transition to a sustainable economy.
3. To outline the role played by green banking in sustainable finance.
4. To suggest measures for effective implementation of green banking in Indian banking system to achieve G20's vision of sustainable finance.

Green banking and G20

Recognising the need to step into the cleaner and greener future, banks are adopting green banking methods and practices. Green banking as a concept makes banks to adopt the eco-friendly practices in their banking operations to reduce the carbon footprints and restore the environment. The banks focus more on the technologies that are sustainable by shifting their investments. This concept became popular among banks after Paris Climate change Agreement and since then investments in reforestation projects, renewable energy and carbon offsets have increased. In the upcoming G20 summit that is to be held in India, the agenda is of sustainable future. The theme "Vasudhaiv kutumbkam" which means 'One Earth, One Family, One Future', highlights how much we need to shift our focus on planet earth. We have only one planet and this planet is responsibility of all of us. If we are using its resources equally then the responsibility to protect is also equal. G20 incorporated term sustainable finance in 2021 summit which means all the business activities that are within financial sector considers ESG (Economic, Social and Governance) factors to promote sustainable development. Every country needs to shift its focus on sustainable finance as it is the key factor in mitigating the change in climate

Role of Sustainable Finance in transition to a Sustainable Economy

Sustainable finance plays a pivotal role in mitigating climate change and transforming the economy into a sustainable economy. The financial sector is a huge sector of any economy that works and impact every area and every sector. Through sustainable finance, financial sector diverts its capital towards a sustainable future by providing loans and investing only in those projects and companies that work for the betterment of environment. As per the Climate Policy Initiative report, "domestic sources continue to account for the majority of green finance, with 87% and 83% in FY2019 and FY2020, respectively. The

private sector contributed about 59%, which amounts to USD 22 billion while the public sector flows, evenly distributed between Government Budgetary spending and PSUs, at approximately 54% and 46% respectively. On the other hand, the report mentioned that the share of international sources increased from 13% in FY 2019 to 17% in FY 2020. It mentioned that the total fund flow towards mitigation was almost equally split between clean energy (42%) and energy efficiency (38%), and was significantly higher than clean transport (17%)". The ways through which sustainable finance helps in transforming into a sustainable economy are -

1. Increased investment in eco- friendly projects:

Through sustainable finance the financial sector is diverting its resources to the businesses which are working for the betterment of environment and investing in the projects that are environment friendly.

2. Combatting climate change:

The environment friendly methods adopted under sustainable finance initiatives help in fighting the problem of climate change.

3. A step into a sustainable future:

It serves as a small step into a sustainable future, a future that is much needed. If we will not work for sustainable future, our future generations will never get the resources we have used.

4. Low carbon emissions:

The investment into eco-friendly projects ensures the increase in number of such projects that do not harm environment and this carbon emission will reduce to some extent.

Role of Green Banking in Sustainable Finance

According to the report, "How Central Banks are Fuelling Climate Crisis", by Oil Change International, "Indian banks rank fourth globally in financing coal plants, providing \$155.6 billion in loans between 2012 and 2019". The report used data from the 60 largest banks and 12 Central banks from the Bloomberg Terminal that provides real time data on financial markets. Banks are adopting green banking practices in their day-to-day operations as well as major tasks. Various initiatives such as green loans, green bonds, green mortgages, green deposits and payment systems have been taken by banks as a step towards sustainable finance. The role of green banking in sustainable finance has been described in following points:

1. It plays a great role in protecting the environment by adopting the eco-friendly practices at the national and international level. In 2021, the SBI and the European Investment Bank together launched a new initiative of euro 100 million to

finance high-climate action and sustainable businesses in India.

2. The projects that are detrimental to environment are discouraged and the projects that are good for environment are encouraged. Yes Bank, a key player in the private sector banking, has taken initiatives in the direction that include sourcing renewable energy, reducing financed emissions, and adopting the Taskforce on Climate-related Disclosures (TCFD), among many others.
3. The use of online customer services, online communication, ATMs, online money transfer, online statements and online deposits or online payments has increased. In all paperless banking had been playing a great role on sustainable finance.
4. The awareness related to environment among bankers and customers is created which helps in moving towards sustainable finance.
5. The efficient use of gas, water, electricity, office stationary, etc is ensured.

Measures for effective implementation of Green Banking in Indian Banking System

‘Climate Policy Initiative’ has released a report titled “Landscape of Green Finance in India 2022” in which it mentioned that “the green finance flows in India are falling far short of approximately a fourth of the country’s current needs. By conservative estimates, the current tracked green finance in India represents less than 25% of the total requirement across sectors just to meet the NDC’s”. It also mentioned that “public finance has played a major role in increasing green finance flows, but more involvement from the private sector is required. The vision of a greener and sustainable future and aspirations of the country require the mobilization of green finance at a much faster pace. As per the report, the green finance flows have increased by 150% from FY2017/FY2018 to FY2019/FY2020”.

Though green banking is widely adopted by banks in Indian banking system but it is also facing certain challenges. So here are some of the measures for the effective implementation of green banking in Indian banking system to achieve G20's vision of sustainable finance.

1. **Increase awareness:** The first and foremost measure is to increase awareness amongst bankers and customers regarding green banking practices and methods. The knowledge of its benefits would create sensitivity amongst them to follow these practices.

2. **Provide monetary assistance:** If banks will be given certain assistance that are more than the increased operating costs then they will be attracted more towards implementing these practices despite of the increased costs.
3. **Recognition to banks:** If banks are recognised for following these practices, they will feel encouraged. Ratings given to banks or ranking them will motivate them to implement these practices in a better way.
4. **Constitution of a specialised body:** If somebody is constituted for this purpose only, that is to ensure the successful implementation of green banking practices then the vision of sustainable finance could be achieved.
5. **Constant monitoring:** Constant monitoring and supervision will help in improving the performance of banks and thus will help in successfully implementing green banking.

Conclusion

India through its theme of G20 summit "Vasudhaiva Kutumbkam" and its logo has clearly indicated that this planet is our responsibility. It's high time to wake up and work towards sustainable development. Every sector should have only one aim and that is sustainability and if it is finance sector then the aim should be sustainable finance. Through the adoption of green banking, we are reaching towards our vision of sustainable finance.

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